

Message Text

CONFIDENTIAL

PAGE 01 LIMA 01093 041739Z

64

ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 8673

C O N F I D E N T I A L LIMA 1093

EO 11652: GDS

TAGS: EINV, ENRG, PE

SUBJECT: OCCIDENTAL SIGNS CONTRACTS WITH PERTOPERU

REFS: LIMA 0903, LIMA 0884

1. DAVID MARTIN, PRESIDENT OF OCCIDENTAL PETROLEUM OF PERU, SIGNED THRU-PUT, SALES AND TOPPING PLANT AGREEMENTS WITH PETROPERU ON FRIDAY AFTERNOON, JANUARY 30.

2. FOLLOWING SIGNING CEREMONY, MARTIN BRIEFED AMBASSADOR AND EMBOFFS ON SEPCIFIC ASPECTS OF THE CONTRACTS, AS FOLLOWS:

A. THRU-PUT AGREEMENT- PERTURPERU COMMITS ITSELF TO COMPLETE ITS SPUR TO OXY'S FIELDS BY DECEMBER 31, 1977. CONTRACT CONTAINS, AS REPORTED PREVIOUSLY, COMMITMENT BY OXY TO PAY PETROPERU \$21.7 MILLION ANNUALLY FOR USE OF PERU'S PIPELINE SYSTEM, WITH PAYMENT BASED ON AVERAGE OF 40,000 B/D. IF MORE THAN 40,000 B/D IS SHIPPED, THEN THERE IS APROPORTIONATE INCREASE IN TARIFF PAID TO PETOPERU. OXY WILL NOT PAY PETROPERU IF FOR ANY REASON TRANSPORT SYSTEM IS NOT IN OPERATION (FORCE MAJEURE, STRIKES, ETC.)

CONFIDENTIAL

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PAGE 02 LIMA 01093 041739Z

MARTIN NOTED THAT THE CONTRACT RUNS FOR 15 YEARS AND THAT

THE COMPANY HAS THE RIGHT TO RELINQUISH ITS RIGHTS AT ANY TIME IF IT SO CHOOSES. MARTIN ESTIMATES THAT INITIAL PRODUCTION WILL BE APPROXIMATELY 80,000 B/D (SPLIT EQUALLY BETWEEN OXY AND PETROPERU), BUT THAT OXY WILL NOT BE ABLE TO MAINTAIN THAT PUMPING RATE FOR MORE THAN A FEW YEARS.

B. SALES AGREEMENT - OXY IS PREPARED TO MAKE AVAILABLE APPROXIMATELY 20,000 B/D TO PETROPERU IF THE LATTER SO DESIRES, AT \$11.51 PER BBL., THE PREVAILING PRICE FOR ARABIAN LIGHT CRUDE. OXY IS NOT CERTAIN THAT PETROPERU WILL PICK UP THIS OFFER AND, THEREFORE, MAY BE IN THE POSITION OF SELLING ALL OF ITS OIL OUTSIDE OF PERU.

C. FIELD DEVELOPMENT - OXY NOW PLANS TO INVEST \$125 MILLION IN ADDITIONAL FUNDS. IT HAS DRILLED 22 DEVELOPMENT WELLS TO DATE, AND PLANS TO DRILL FOR OIL IN SIX ADDITIONAL STRUCTURES.. MARTIN ESTIMATES THAT U.S. GOODS AND SERVICES FOR ITS ADDITIONAL INVESTMENT COULD AMOUNT TO APPROXIMATELY \$70 MILLION. IN THIS REGARD, OXY WILL BE SEEKING CREDITS FROM EXIMBANK FOR THESE PURCHASES.

3. MARTIN SAID THAT THE GOP DID NOT PLAN PUBLICITY IN REGARD TO THE SIGNING.(NO PUBLICITY APPEARED IN WEEKEND PRESS.) HOWEVER, ON FEBRUARY 2 "EL COMERCIO" CARRIED A SHORT EFE STORY FROM NEW YORK QUOTING OXY PRESS RELEASE TO THE EFFECT THAT THE COMPANY HAD SIGNED AN AGREEMENT WITH PETROPERU WHICH WOULD RUN FOR 15 YEARS AND THAT THE PIPELINE IS DESIGNED TO CARRY 80,000 B/D

4. COMMENT: MARTIN EXPRESSED HIS PLEASURE THAT CONTRACTS HAD FINALLY BEEN SIGNED. IN HIS VIEW, CONTRACTS BENEFIT COMPANY SINCE GOP HAS AGREED TO ACCEPT FINANCING COST FOR THE SPUR-LINE. IN THEIR DESIRE TO BE HELPFUL, OXY TURNED OVER TO PETROPERU AT NO CHARGE APPROXIMATELY \$1.5 MILLION WORTH OF FEASIBILITY STUDIES AND PRELIMINARY PLANS THEY HAD DEVELOPED FOR THE PIPELINE.MARTIN REMAINS SKEPTICAL THAT GOP WILL BE ABLE TO CONSTRUCT THE LINE ON SCHEDULE, AND SAID HE DID NOT KNOW WHERE THE PERUVIANS PLAN TO OBTAIN FINANCING FOR THE SUPR.
CONFIDENTIAL

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PAGE 03 LIMA 01093 041739Z

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